



Report to the Auburn City Council

Action Item

Agenda Item No.

3


City Manager's Approval

To: Honorable Mayor and City Council Members
From: George E. Williams, City Treasurer
Andy Heath, Administrative Services Director
Date: September 10, 2012
Subject: Quarterly Report of Investments – Quarter Ending June 30, 2012

The Issue

The City Council is required by state law and the City of Auburn's Investment Policy to receive and review a Quarterly Investment Report.

Recommended Action Requested

Receive, review and file the "City of Auburn Quarterly Investment Report" for the quarter ending June 30, 2012.

Background

The City of Auburn Quarterly Investment Report (Investment Report) for the quarter ending June 30, 2012 has been prepared in compliance with the reporting requirements as set for in the State of California Government Code Sections 53600 et seq. and the City of Auburn Investment Policy. The Investment Report contains the following information:

- Identification of the type of each investment held in the City's Treasury;
- Identification of the legal name of the issuer or fiduciary of each investment held in the City's Treasury;
- A listing of the dollar amount invested for each item in the Treasury Portfolio;
- A listing of the maturity date of those investments having fixed maturities;
- A confirmation that the reported investments conform to the City's adopted investment policy; and
- A confirmation of the City's ability to meet its pooled expenditure requirements for the next six months.

AnalysisINVESTMENT SUMMARYCity of Auburn Pooled Investment Accounts:

<i>For the quarter ended:</i>	<u>June 2012</u>	<u>March 2012</u>	<u>June 2011</u>
Portfolio value – end of quarter:	\$13,935,975	\$12,576,248	\$11,497,281
Portfolio effective yield – end of quarter:	0.85%	0.96%	1.60%
Dollar-weighted days to maturity – end of quarter:	556	615	742
Portfolio interest earnings (1) – end of quarter:	\$34,153	\$39,169	\$46,446
Net unrealized gain / (loss) (2) – end of quarter:	\$3,731	\$(12,857)	\$28,814

Auburn Urban Development Authority Account:

<i>For the quarter ended:</i>	<u>June 2012</u>	<u>March 2012</u>	<u>June 2011</u>
Portfolio value – end of quarter:	\$347,152	\$340,782	\$1,841,939
Portfolio effective yield – end of quarter:	4.25%	4.33%	0.82%
Dollar-weighted days to maturity – end of quarter:	470	569	156
Portfolio interest earnings (1) – end of quarter:	\$6,370	\$380	\$7,870

Sewer Revenue Bond Proceeds Account

<i>For the quarter ended:</i>	<u>June 2012</u>	<u>March 2012</u>	<u>June 2011</u>
Portfolio value – end of quarter:	\$1,673,905	\$1,666,302	\$2,614,753
Portfolio effective yield – end of quarter:	1.38%	1.39%	1.63%
Dollar-weighted days to maturity – end of quarter:	392	441	283
Portfolio interest earnings (1) – end of quarter:	\$7,602	\$74	\$21,000

- (1) Interest earnings on investments distributed to City during reporting quarter.
- (2) Unrealized “paper” gains / (losses) on investments due to fluctuations in market value. Unrealized gains and losses impact interest earnings each month as the City is required to account for and book investments at marketable value.

PORTFOLIO / TREND ANALYSIS

As a means to account for the investment of both Auburn Urban Development Authority (AUDA) and Wastewater Treatment Facility Upgrade Project bond proceeds received in October 2008 and August 2009, respectively, the Investment Report includes appropriate analysis for these separately invested funds. In addition to the table presented as part of the Investment Summary above, attachments to this report have also been updated to include appropriate investment information related to the bond proceeds held in trust.

As the projects supported by the bond proceeds become completed and all project-related funds are expended, funds remaining in the bond proceeds trust accounts will only include applicable debt service reserves which are required to remain in trust until the bonds are fully paid off. As of June 30, 2012, all project-related bond proceeds held for the Auburn Urban Development Authority (AUDA) have been used to reimburse applicable project expenditures. Funds remaining in the AUDA bond proceeds account are being held over the life of the bonds as a debt service reserve. Funds remaining in the Sewer Revenue Bonds account include both a debt service reserve and approximately \$1.1 million in bond proceeds, of which approximately \$100,000 will be moved to the pooled cash account to cover applicable expenditures pursuant to the completion of a fiscal year-end reconciliation.

Attachment A provides detailed information for each of the City’s investments as of the quarter ended June 30, 2012. Investments are categorized into one of five groups:

Fixed Rate Investments: Investments purchased which pay interest on a periodic basis at a fixed coupon / stated rate. Discounted commercial paper is also included in this group. Fixed Rate Investments, consistent with the City's Investment Policy, are generally held to maturity and not sold in the open market.

Pooled Investments: Monies pooled with the State of California (Local Agency Investment Fund) and Placer County (County Investment Pool) which are generally available on a daily basis.

Unrestricted Financial Institution Investments: Unrestricted operating account monies available in demand accounts for accounts payable, payroll and jet fuel-related accounts. Certificates of deposit and money market accounts are also included with this group.

Restricted Financial Institution Investments: Restricted demand accounts maintained for the payment of obligations for designated city programs.

AUDA / Sewer Revenue Bond Proceeds: All bond proceeds are invested separate from the pooled investment accounts. Bond proceeds are invested consistent with anticipated project payment schedules and have been placed in the CDARS Certificate of Deposit Program, which is 100% FDIC insured. Matured CDARS investments remain with the Bond Proceeds Trustee in a liquid money market account until drawn on by the City to cover applicable project expenditures.

Attachment B provides investment trend information for the last nine quarters. The City's investment portfolio effective yield as of June 30, 2012 is 0.85%. The effective yield has decreased 11 basis points (0.11%) when compared to the yield reported for quarter ended March 31, 2012 (0.96%). The decrease in yield can be primarily attributed to the reinvestment of maturing and/or called securities into lower-yield investments in a sustained declining interest rate environment. Overall market interest rates continue to set or remain near all-time record lows.

During the quarter ended June 30, 2012, the City realized \$48,125 in investment earnings. In addition to the investment earnings, the City experienced a \$3,731 unrealized gain in portfolio market value. Unrealized market gains and losses, which are required to be amortized into the portfolio value, fluctuate from month-to-month in response to overall market conditions.

As discussed in previous investment reports, Lehman Brothers, the fourth largest investment bank in the United States at the time, filed for bankruptcy on September 15, 2008. The Lehman Brothers bankruptcy, which followed by only a week the Federal Government "bail out" of Fannie Mae and Freddie Mac, provided an indication of the severe financial market turmoil to come as a result of the unwinding of loose lending policies and excessive credit provided during the housing boom over the past decade. At the time of the Lehman bankruptcy, the City owned a medium-term corporate bond in Lehman Bros. Holdings in the amount of \$125,000. The value of the bond which has

since matured however continues to be held in the City's portfolio concurrent with bankruptcy court proceedings, as of June 30, 2012 was \$28,594. The unrealized loss of \$96,406 has been fully amortized as a component of the unrealized investment gains and losses.

In response the bankruptcy action taken by Lehman, City staff continues to monitor ongoing bankruptcy proceedings (the City has filed a claim) and the investigation and prosecution of a case against certain individuals or entities responsible for losses stemming from the City's investment in Lehman Bros. Staff continues to work with appointed counsel in an effort to recover a portion of the investment loss.

During the quarter ended June 30, 2012, the City's pooled investment portfolio increased by approximately \$1.36 million (not including bond proceeds held in trust). The increase in portfolio value can be primarily attributed to the receipt of the second half of property-tax related receipts from the County in May 2012.

All investments held at June 30, 2012 conform to the City's Investment Policy and the State of California Government Code. Based on the Administrative Services Department's cash flow projection as of June 30, 2012, funds on deposit and anticipated revenue collections for the period July 1, 2012 through December 31, 2012 are sufficient to meet all anticipated City expenditures during the same period.

INVESTMENT POLICY EXCEPTION

None.

PORTFOLIO INVESTMENT EARNINGS

Below is a comparison of actual Investment earnings on the City's portfolio to the fiscal year 2011-12 budget.

<u>Net Investment Earnings</u>	<u>Yield</u>	<u>General Fund</u>	<u>Other Funds</u>
<i>Six Months Ending 06/30/12</i>			
Budget	1.30%	\$ 25,000	\$ 149,000
Actual (1)	1.14%	<u>18,040</u>	<u>132,424</u>
Variance		<u>(\$ 6,960)</u>	<u>(\$ 16,576)</u>

(1) Includes all portfolio funds (pooled investments and bond funds) and amortization of unrealized market value loss

Alternatives Available to Council; Implications of Alternatives

1. Request the City Treasurer to prepare supplemental information for review by the City Council at a future meeting.

Fiscal Impact

The year-to-date yield on investment earnings actually received for the City's portfolio of investments is 1.14%. An average yield of 1.30% was forecasted in the City's revised mid-year budget for Fiscal Year 2011-12. Attainment of interest revenues consistent with forecasted yields is directly contingent on average cash balances held in citywide funds.

Attachment A – Investment Portfolio Analysis

Attachment B – Treasury Investment Pool Quarterly Comparison

City of Auburn
Portfolio Analysis
Quarter Ending June 30, 2012

Attachment A

6/30/2012

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Fixed Rate Investments</u>			
US Government Bonds	\$ 5,015,883	1.32%	1,512
Corporate Notes	282,667	4.75%	148
Negotiable Certificates of Deposit	-	0.00%	-
Subtotal:	\$ 5,298,550		
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Dollar-Weighted Average Yield:		1.50%	
Dollar Weighted Days to Maturity:			1,439

Pooled Investments

State of California LAIF	\$ 42,253	0.36%	1
Placer County Investment Pool	2,229,873	1.58%	1
Subtotal:	\$ 2,272,126		
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Dollar-Weighted Average Yield:		1.56%	
Dollar Weighted Days to Maturity:			1

Unrestricted Financial Institution Investments

Wells Fargo Bank - Commercial Checking	\$ 5,336,010	0.00%	1
Wells Fargo Bank - Payroll Checking	336,204	0.00%	1
Wells Fargo Bank - Aviation Fuel Account	8,228	0.05%	1
Tri Counties Bank - Cert of Deposit	256,889	0.40%	317
Community First Bank - Cert of Deposit	250,000	0.55%	108
UMPQUA Bank Money Market	120,667	0.47%	1
Southwest Securities (Money Markets)	14,894	0.05%	1
	\$ 6,322,892		
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Dollar-Weighted Average Yield:		0.05%	
Dollar Weighted Days to Maturity:			18

City of Auburn
Portfolio Analysis
Quarter Ending June 30, 2012

Attachment A

6/30/2012

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Restricted Financial Institution Investments</u>			
Bank of America - Chiropractic Checking	\$ 4,186	0.00%	1
Bank of America - Vision Checking	5,735	0.00%	1
Bank of America - Dental Checking	5,605	0.00%	1
Bank of America - Landfill Closure Account	10,840	0.05%	1
Wells Fargo Bank - AUESD Relocation Account	16,041	0.00%	1
	<u>\$ 42,407</u>		
		Dollar-Weighted Average Yield:	0.01%
		Dollar Weighted Days to Maturity:	<u>1</u>

Unrestricted Investment Portfolio Valuation	\$ 13,893,568	0.85%	557
Restricted Investment Portfolio Valuation	\$ 42,407	0.01%	1
Total Pooled Investments Portfolio Valuation	<u>\$ 13,935,975</u>	<u>0.85%</u>	<u>556</u>
Total AUDA Bond Proceeds Account	\$ 347,152	4.25%	470
Total Sewer Revenue Bond Proceeds Account	<u>\$ 1,673,905</u>	<u>1.38%</u>	<u>392</u>

City of Auburn
Bond Maturity - Detail
Quarter Ending June 30, 2012

Attachment A

6/30/2012

	<u>Market Value</u>	<u>Current Yield</u>	<u>Maturity</u>
<u>US Agency Bonds</u>			
Federal National Mortgage Assn (\$500K)	517,465	3.99%	5/28/2013
Federal Home Loan Bank (\$750K)	750,000	0.75%	9/30/2016
Federal Home Loan Bank (\$1 Million)	1,000,050	1.10%	11/29/2016
Federal Farm Credit Bank (\$1 Million)	997,830	0.99%	12/19/2016
Federal Farm Credit Bank (\$750K)	752,798	1.17%	2/21/2017
Federal Farm Credit Bank (\$1 Million)	997,740	1.03%	3/27/2017
Subtotal:	\$ 5,015,883		

Dollar-Weighted Average Yield: 1.32%
Dollar Weighted Days to Maturity: 1,512

Corporate Notes

Lehman Brothers Holdings (\$125K)	28,594	0.00%	6/30/2012
Citigroup, Inc (\$125K)	126,560	5.23%	10/17/2012
Merrill Lynch (\$125K)	127,513	5.34%	2/5/2013
Subtotal:	\$ 282,667		

Dollar-Weighted Average Yield: 4.75%
Dollar Weighted Days to Maturity: 148

Negotiable Certificates of Deposit

None

Subtotal: \$ -

Dollar-Weighted Average Yield: 0.00%
Dollar Weighted Days to Maturity: -

UBOC Total Valuation:	\$ 5,298,550	2.15%	1,439
Cost Basis:	\$ 5,365,534		
Net Unrealized Gain / (Loss):	\$ (66,984)		

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 06/30/12</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 03/31/12</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 12/31/11</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 42,253	0.36%	\$ 42,213	0.36%	\$ 42,173	0.39%
Placer County Treasury Investment	2,229,873	1.58%	2,221,982	1.46%	2,214,040	1.44%
US Gov't/Agency Bonds (held by UBOC)	5,015,883	1.32%	4,760,283	1.41%	3,531,030	1.94%
Negotiable Certs. of Deposit (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Corporate Notes (held by UBOC)	282,667	4.75%	292,111	4.60%	284,971	4.71%
Southwest Securities (Formerly ML Stern)	14,894	0.05%	14,892	0.05%	14,893	0.05%
Tri Counties Bank (CDARS Program)	256,889	0.40%	256,888	0.40%	256,481	0.75%
Wells Fargo Bank (Checking / Payroll / Fuel)	5,680,442	0.00%	4,295,277	0.00%	1,981,086	0.00%
Bank of America (Landfill Trust Account)	10,840	0.05%	40,287	0.05%	39,940	0.05%
Bank of America (Vision Account)	5,735	0.00%	5,805	0.00%	700	0.00%
Bank of America (Dental Account)	5,605	0.00%	5,675	0.00%	10,863	0.00%
UMPQUA Bank (Money Market Demand)	120,667	0.48%	120,546	0.48%	120,402	0.48%
Community First Bank (Cert. of Deposit)	250,000	0.55%	500,000	1.11%	500,000	1.11%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,186	0.00%	4,248	0.00%	4,309	0.00%
Totals	\$ 13,935,975	Overall Yield = 0.85%	\$ 12,576,248	Overall Yield = 0.96%	\$ 9,016,929	Overall Yield = 1.35%
<u>AUDA / Sewer Bond Proceeds Accounts</u>						
Reliance Trust - AUDA (CDARS Program)	\$ 347,152	4.25%	\$ 340,782	4.33%	\$ 1,053,959	1.41%
Reliance Trust - Sewer (CDARS Program)	\$ 1,673,905	1.38%	\$ 1,666,302	1.39%	\$ 1,666,228	1.38%
Summary of Investments	6/30/2012		3/31/2012		12/31/2011	
State Pool	0.3%	\$ 42,253	0.3%	\$ 42,213	0.4%	\$ 42,173
County Pool	14.0%	2,229,873	15.2%	2,221,982	18.9%	2,214,040
Corporate Bonds	1.8%	282,667	2.0%	292,111	2.4%	284,971
U.S. Agencies	31.4%	5,015,883	32.6%	4,760,283	30.1%	3,531,030
Negotiable Certificate of Deposit	0.0%	-	0.0%	-	0.0%	-
Financial Institutions	39.9%	6,365,299	36.1%	5,259,659	25.1%	2,944,715
Bond Proceeds / Debt Svc Reserve	12.7%	2,021,057	13.8%	2,007,084	23.2%	2,720,187
Investment Total	100.0%	\$ 15,957,032	100.0%	\$ 14,583,332	100.0%	\$ 11,737,116

Attachment B

State of California L.A.I.F.
Placer County Treasury Investment
US Gov't Agency Bonds (held by UBOC)
Negotiable Certs. of Deposit (held by UBOC)
Corporate Notes (held by UBOC)
Southwest Securities (Formerly ML Stern)
Tri Counties Bank (CDARS Program)
Wells Fargo Bank (Checking / Payroll / Fuel)
Bank of America (Landfill Trust Account)
Bank of America (Vision Account)
Bank of America (Dental Account)
UMPQUA Bank (Money Market Demand)
Community First Bank (Cert. of Deposit)
Wells Fargo Bank (AUESD Relocation)
Bank of America (Chiropractic Care Acct)

Reliance Trust - AUDA (CDARS Program)
Reliance Trust - Sewer (CDARS Program)

**State Pool
County Pool
Corporate Bonds
U.S. Agencies
Negotiable Certificate of Deposit
Financial Institutions
Bond Proceeds / Debt Svc Reserve**

Investment Total

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 12/31/10</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 09/30/10</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 06/30/10</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 41,982	0.47%	\$ 41,927	0.51%	\$ 41,869	0.56%
Placer County Treasury Investment	2,176,086	1.70%	2,166,262	2.15%	2,153,928	2.34%
US Gov't/Agency Bonds (held by UBOC)	4,532,350	2.25%	5,067,490	2.22%	4,545,006	2.22%
Negotiable Certs. of Deposit (held by UBOC)	198,775	3.99%	299,033	3.97%	301,113	3.94%
Corporate Notes (held by UBOC)	418,261	4.78%	421,610	4.77%	412,455	4.85%
Southwest Securities (Formerly ML Stern)	14,927	0.05%	14,927	0.05%	14,927	0.09%
Tri Counties Bank (CDARS Program)	256,897	0.95%	256,290	0.95%	255,678	0.95%
Wells Fargo Bank (Checking / Payroll / Fuel)	309,501	0.00%	936,541	0.00%	2,117,126	0.00%
Bank of America (Landfill Trust Account)	70,880	0.10%	65,825	0.10%	43,511	0.10%
Bank of America (Vision Account)	1,472	0.00%	1,498	0.00%	3,067	0.00%
Bank of America (Dental Account)	10,449	0.00%	10,469	0.00%	9,011	0.00%
UMPQUA Bank (Money Market Demand)	119,796	0.55%	119,627	0.61%	119,452	0.63%
Community First Bank (Cert. of Deposit)	500,000	1.11%	500,000	2.27%	500,000	2.27%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,580	0.00%	4,643	0.00%	4,708	0.00%
Totals	\$ 8,671,997	Overall Yield = 2.03%	\$ 9,922,183	Overall Yield = 2.08%	\$ 10,537,892	Overall Yield = 1.88%
<u>AUDA / Sewer Bond Proceeds Accounts</u>						
Reliance Trust - AUDA (CDARS Program)	\$ 1,923,017	0.78%	\$ 1,958,182	3.82%	\$ 2,633,183	2.85%
Reliance Trust - Sewer (CDARS Program)	\$ 2,593,678	1.64%	\$ 3,879,191	1.24%	\$ 5,751,340	1.04%
Summary of Investments	12/31/2010		9/30/2010		6/30/2010	
State Pool	0.3%	\$ 41,982	0.3%	\$ 41,927	0.2%	\$ 41,869
County Pool	16.5%	2,176,086	13.7%	2,166,262	11.4%	2,153,928
Corporate Bonds	3.2%	418,261	2.7%	421,610	2.2%	412,455
U.S. Agencies	34.4%	4,532,350	32.2%	5,067,490	24.0%	4,545,006
Negotiable Certificate of Deposit	1.5%	198,775	1.9%	299,033	1.6%	301,113
Financial Institutions	9.9%	1,304,543	12.2%	1,925,861	16.3%	3,083,521
Bond Proceeds / Debt Svc Reserve	34.2%	4,516,695	37.0%	5,837,373	44.3%	8,384,523
Investment Total	100.0%	\$ 13,188,692	100.0%	\$ 15,759,556	100.0%	\$ 18,922,415